REBUTTAL TESTIMONY OF GUY SHARFMAN

I.

INTRODUCTION AND QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Guy Sharfman. My business address is 1004 Prairie, Suite 200, Houston, Texas 77002.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the Building Owners and Managers Association of Chicago ("BOMA"), and the Chicago Area Customer Coalition ("CACC"), which is comprised of Akzo Nobel, The Art Institute of Chicago, Aux Sable Liquid Products, Inc., CITGO Petroleum Corporation, General Mills, Inc., and the Metropolitan Chicago Healthcare Council.

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Q. Please summarize your educational background and professional experience.

A. I received a B.A. degree in economics from the University of Illinois at Urbana/Champaign in 1994 and an M.A. in economics from DePaul University in 1998. From 1998 to 2000 I was employed as a Research Economist for Analytical Support Network, Inc. ("ASNI") in Chicago, a firm specializing in regulatory and economic consulting in the electricity industry. During my time at ASNI I became involved in Illinois electric deregulation providing support for various cases in front of the Illinois Commerce Commission ("ICC"), creating pricing models and performing retail pricing for an Illinois alternative retail electric supplier, and conducting electric procurement analysis for various end users. In 2000 I became Manager of Electric Services for Nicor Energy Services, L.L.C. in Lisle, Illinois. In that position I managed the power pricing desk, negotiated power supply agreements with wholesalers, structured retail power products for the Commonwealth Edison Company ("ComEd"), Illinois Power

Company ("IP"), and Ameren CIPS ("Ameren") control areas, and developed electric retail service capabilities for the company in Michigan and Ohio. In 2001 I took a position with Enron Wholesale Services on the East Power Desk where I managed Enron's retail commodity position in the Midwest region. My responsibilities at Enron included buying and selling power, creating and maintaining retail power forward curves for various control areas including ComEd, IP, and Ameren, developing Enron's capability to serve retail load in new control areas, as well as assisting regulatory affairs in various matters, including proceedings before the ICC, and in discussions concerning the Alliance Regional Transmission Organization ("ARTO") and the Midwest Independent System Operator ("MISO") start-up processes. I resigned from Enron in 2002 to take a management consulting position with Econ One Research, Inc. My current resume is attached as BOMA/CACC Exhibit 2.1.

Q. Please summarize your current position and duties at Econ One Research, Inc.

A. I am currently a consultant and Director of Energy Strategy for the Energy Marketing Group of Econ One Research, Inc. My duties include consulting on electric wholesale, retail, and regulatory matters to energy companies, governmental bodies, other consulting firms, as well as end users, such as BOMA/Chicago. In addition, I direct the construction and publication of Econ One's Retail Power Index ("RPI"), which is published monthly in Platts' *Power Markets Week* and *Megawatt Daily*. The RPI reports on regulated and competitive retail power price offerings to end users in ten cities across the country where electric choice has been introduced including Boston, Chicago, Cincinnati, Dallas, Detroit, Houston, New York, Philadelphia, Pittsburgh, and Washington D.C.

Q. Have you previously testified before this Commission?

A. Yes. I have testified in the Market Value Index proceeding before the Illinois Commerce Commission in consolidated dockets 02-0656, 0671, and 0672.

II
PURPOSE OF TESTIMONY
AND SUMMARY OF CONCLUSIONS

Q. What is the purpose of your testimony in this case?

A. The purpose of my testimony is to comment on ComEd's proposal to modify its current Hourly Energy Pricing Rate ("Rate HEP") for use as a default rate for customer classes that have been declared competitive by the Commission. My objective is to illustrate how certain components inherent in Rate HEP may overcharge consumers for default service, and may create market risks for certain customers that cannot be mitigated. In addition, I will provide the Commission with alternative rate structures that will make Rate HEP more transparent, ensure that it does not over or under charge customers, and provide default customers the means to mitigate risks associated with day-ahead and hourly pricing.

Q. What are your conclusions?

A. The Commission should add several modifications to Rate HEP, above and beyond the modifications that ComEd has proposed, in order to ensure that Rate HEP is transparent, adequately recovers the costs associated with default service, and offers customers the mechanisms to mitigate variable price risk. These modifications should include altering the current Rate HEP structure, as well as adding a fixed annual energy price Rate HEP option.

In particular, the current Rate HEP structure should be altered to create a new Rate HEP ("Rate HEP_N") that will be a transparent rate and will adequately recover the costs associated with default service. This new rate structure will be

one where the individual costs associated with providing default service, mainly administrative, retail supply, distribution, transmission and ancillary services costs, will be unbundled and charged separately. The sum of these charges will comprise Rate HEP_N, such that:

Rate HEP_N = Customer Charge + ($Price_{Hr}$ * kWh) + Rate RCDS + Rider TS

Where the Customer Charge recovers administrative costs, the $Price_{Hr}$ recovers retail supply costs, Rate RCDS recovers distribution costs, and Rider TS recovers transmission and ancillary services costs.

In addition to Rate HEP_N a fixed annual energy price option should be offered to customers in order to allow them to budget for energy costs over a fixed period of time. This option should simply be Rate HEP_N with an annual fixed, rather than a daily and hourly variable energy price ("Rate HEP_F"). Rate HEP_F will be calculated much like Rate HEP_N except that, instead of an hourly energy price, it will contain a fixed annual energy price ("$Price_F$"), such that:

Rate HEP_F = Customer Charge + ($Price_F$ * kWh) + Rate RCDS + Rider TS

ComEd should offer the Rate HEP_F option several times per year. Conversely, customers taking service under the Rate HEP_F option would be mandated to stay on the rate for a minimum of one year.

Q. How is your testimony organized?

A. Sections three through five of my testimony discuss why Rate HEP in its current form is not an adequate default rate, illustrate how default rates are calculated in other regions across the country, and offer improvements to the current Rate HEP design. Specifically these sections discuss the following:

- Section three discusses the criteria that a properly designed default rate should meet, and how Rate HEP fails to meet these criteria. Rate HEP is assessed as a rate that is nontransparent, may over recover certain costs, and creates risks that certain customers cannot mitigate.

- Section four discusses electric default rates in other regions across the United States where electric choice has been introduced, and compares Rate HEP to a default rate currently provided by Boston Edison for the City of Boston. The regions focused on in this section are those covered in the published RPI.

- Section five offers improvements to the current Rate HEP design that will effectively negate the problems discussed in the previous sections and make Rate HEP fair to consumers as well as fair and manageable to ComEd.

III
RATE HEP LACKS TRANSPARENCY, MAY OVER RECOVER COSTS, AND CREATES RISKS FOR CUSTOMERS

Q. How should a proper retail electric default rate be designed?

A. A properly designed default rate should allow the incumbent utility service provider to adequately recover all cost components associated with providing default electric service to consumers. The rate should be designed in such a manner that ensures that these cost components are not over or under recovered by the default rate provider. In addition, since, unlike bundled rates, default rates are generally associated with competitive markets, the rate should be designed in a transparent manner where the main cost components associated with serving retail load are calculated individually, making the rate easily comparable to other

competitive rates. A default rate designed in this manner will also ensure that each cost component is adequately recovered.

Q. What are the major cost components associated with providing retail default service?

A. The main cost components associated with providing default electric service to retail customers are distribution, transmission and ancillary services, and retail supply costs. Distribution costs include costs associated with distribution revenue requirements. Transmission and ancillary services costs include costs associated with operation and maintenance of the transmission grid, maintaining service reliability, as well as any other costs associated with providing these services. Finally, retail supply costs include the costs associated with purchasing or producing electric power and energy as well as costs associated with serving a retail customer that are not included in the distribution, transmission and ancillary services components.

Q. Are there any other cost components associated with providing retail electric default service?

Yes. In addition to the three main cost components mentioned above, there can also be an administrative cost component, and allotted margin component, and, when applicable, a stranded cost recovery or a stranded benefit credit component. The administrative cost component includes costs associated with setting up and administering the default rate, such as billing and account maintenance. The allotted margin component should be a regulated return that the default provider is allowed to collect as compensation for providing the rate. Finally, stranded cost recovery charges or stranded benefit credit components may also be part of default service in regions where the incumbent utilities have been determined to have such stranded costs or benefits.

Q. Why is it important that a default rate design ensure that the default provider does not over or under recover the costs incurred from providing this service?

A. Providers of default service are generally mandated to offer default service to customers or customer groups without exception. In Illinois, for example, since the 3 MW and above customer classes have been deemed competitive by the Commission, ComEd will have to offer default service to all customers in these classes without exception. As a result, default providers lack certain options available to other suppliers to mitigate risks associated with supplying end users. A default supplier, for example, can't turn away a customer because of bad credit, or place consumption bands on a customer's usage pattern. Since default suppliers are less able to mitigate supply risk and minimize costs, they are highly dependent on the default rate structure to recover costs associated with providing default service.

Conversely, a customer taking service under a default rate may likely do so as a result of this rate being that customer's sole supply option. Alternative electric suppliers looking to minimize their supply risks may turn down customers with bad credit or unfavorable electric loads for service. As a result, some customers may lack the opportunities afforded to other customers to choose alternative supply that offers more favorable terms such as lower rates or decreased market risk. Since these customers lack the opportunities afforded others through a competitive electricity market, they are highly dependent on the default rate structure to ensure they are not overcharged for electric service. Thus, it becomes important for default rate structures to ensure that the costs associated with providing this service are neither over nor under recovered.

Q. Please explain what you mean when you say that a default rate should be designed in a transparent manner.

A. Transparency in a default rate simply means that the major cost components embedded in the rate are calculated individually so that the rate can be easily compared to other competitive rates. Electric deregulation resulted in the unbundling of the major cost components associated with serving retail electric load. Electric utilities serving regions open to electric choice generally offer individual tariffs and riders that calculate costs associated with distribution, transmission and ancillary services, retail supply and other cost components individually. Unlike bundled rates, which were designed prior to electric deregulation and may provide little or no transparency, new default rates should be designed in a manner that allows cost components to be as transparent as possible.

Q. Why is transparency in a default rate important?

A. A transparent default rate protects consumers from overpaying for default service, and protects default suppliers from under recovering default service costs. A transparent default rate protects consumers since they are assessed separate charges for each major cost component which allows customers to easily compare the default to other competitive rates that may be available. In addition, a transparent default rate allows a default provider to easily determine the amount of revenue it receives for each cost component, which, in turn, enables a reasonable assessment that default service costs are adequately recovered.

Q. Is ComEd's Rate HEP an adequate default rate from the standpoint of transparency as well as adequate cost recovery?

A. No. The structure of ComEd's Rate HEP does not meet either of these criteria. First, Rate HEP is not transparent since certain cost components embedded in the rate are not individually calculated, making the rate difficult to compare to other competitive rates. Second, ComEd's Rate HEP may over recover costs associated

with distribution and transmission and ancillary services, and, thus, does not ensure adequate cost recovery.

Q. How is ComEd's Rate HEP structured?

A. Currently, ComEd's Rate HEP contains three main components, a fixed monthly Customer Charge, an hourly energy price calculated the previous day ("$Price_{Hr}$"), and an annually calculated Monthly Access Charge. A total monthly Rate HEP bill ("Rate HEP $Bill_{Mo}$") is comprised of the Monthly Access Charge multiplied by the customer's peak demand measured in kW, plus $Price_{Hr}$ multiplied by a customer's electricity consumption measured in kWh, plus the Customer Charge, such that:

$$\text{Rate HEP Bill}_{Mo} = (\text{Monthly Access Charge} * \text{Demand/kW}) + (\text{Price}_{Hr.} * \text{Consumption/kWh}) + \text{Customer Charge}$$

The rate is structured much like a bundled rate with energy, demand, and customer charge components.

Q. Please explain why ComEd's Rate HEP is not transparent.

A. As discussed above, a transparent rate is one where the major cost components embedded in the rate are calculated individually, making the rate easily comparable to other competitive rates. ComEd's Rate HEP is not structured in this manner. While one can assume that the fixed Customer Charge in Rate HEP represents an administrative cost component, and that the $Price_{Hr}$ in Rate HEP represents a retail supply cost component, there are no components that individually depict the costs associated with distribution, and transmission and ancillary services. These charges are apparently recovered through the final Rate HEP component, the Monthly Access Charge. However, this charge is not

calculated by simply summing the costs associated with distribution and transmission and ancillary services, as would be proper. As a result, it is unclear if these costs are adequately recovered, and the rate is therefore nontransparent.

Q. How is the Monthly Access Charge calculated?

A. The Monthly Access Charge is calculated by summing all of a customer's demand and energy charges from a base year, subtracting from this total the customers total energy usage from the base year multiplied by a forecasted energy price for the following year, and dividing the entire total by the sum of the customer's base year monthly demands, such that:

$$\text{Monthly Access Charge} = [\text{Annual Demand \& Energy Charges} - (\text{Annual Energy Usage} * \text{Forecasted Energy Price})] / (\Sigma \text{ Monthly Demands})$$

What this calculation essentially does is take a customer's historical annual total base charges for electric service (excluding administrative or customer charges) and subtract from this a forecasted amount the customer would pay in energy or retail supply costs. The end result is then divided by an annual sum of historical peak demands to provide a charge per kW component.

The Monthly Access Charge is the only component left in Rate HEP to recover costs that the Customer Charge and the Price_{Hr} fail to recover. In the ComEd region the costs that must still be recovered after administrative and retail supply costs have been recovered are distribution and transmission and ancillary services costs. Thus, since the Customer Charge and Price_{Hr} components in Rate HEP recover administrative and retail supply costs respectively, the sole responsibility of the Monthly Access Charge should be to recover the remaining distribution and transmission and ancillary services costs.

Q. Please explain how ComEd's Rate HEP may over-recover costs associated with distribution and transmission and ancillary services.

A. As discussed above, the Monthly Access Charge component of Rate HEP should recover distribution and transmission and ancillary services costs exclusively. However, rather than calculating the charge by simply summing up distribution and transmission and ancillary services costs, the charge is calculated as the residual of a total annual historical demand and energy bill minus a total of a forecasted annual energy bill. In this manner the Monthly Access Charge can greatly exceed the sum of distribution and transmission and ancillary services costs. For example, consider a case where the base year's energy prices were high, but the following year's forecasted energy prices are low. While the $Price_{Hr}$ for Rate HEP may be lower for the following year, the Monthly Access Charge will actually be higher. This higher Monthly Access Charge will greatly exceed distribution and transmission and ancillary services costs, which remain relatively stable from year to year.

Q. Is it possible for the Monthly Access Charge in Rate HEP to understate the costs associated with distribution, transmission and ancillary services?

A. No. ComEd's proposal to modify Rate HEP for default service contains a provision that states that the per unit charge of the Monthly Access Charge will never be less than the sum of distribution and transmission and ancillary services charges. This proposal is discussed in ComEd witness Alongi's direct testimony (page 5, lines 70-74) and is also provided in ComEd's revised Rate HEP tariff sheet No. 55.72[1]. The result of this is that the Monthly Access Charge may very

[1] "Notwithstanding the aforementioned provisions of this Monthly Access Charge section, in no event shall the per unit rate determined in the annual computation of the Monthly Access Charge result in the application of charges to customers that are less than the sum of the charges that would have been computed in the application of the Distribution Facilities Charge and Transmission Services and Ancillary Transmission Services Charges..."

well over recover the costs of distribution and transmission and ancillary services, but will never under recover these costs.

Q. Are there any additional problems associated with Rate HEP?

A. Yes. Rate HEP contains a variable energy pricing structure where the calculated $Price_{Hr}$ under the rate will fluctuate day-to-day, and even hour-to-hour during peak periods. This variable energy pricing structure will create increased risk that certain customers will not be able to mitigate.

Q. Please explain how the Energy Price in ComEd's proposed Rate HEP is determined using a variable pricing structure.

A. The $Price_{Hr}$ in ComEd's Rate HEP is proposed to be calculated daily using published day-ahead prices for a region most closely related to ComEd's service territory. The day-ahead prices will then be shaped using historical PJM price shapes, as well as incorporate a contribution to fixed costs adder equal to 10% of costs. The calculated prices will include a separate price per kWh for each on peak hour and a single price per kWh for all off peak hours of the following day. The prices will be posted by ComEd on a secure website available to Rate HEP customers the previous day (Rate HEP tariff sheets 55.73 – 55.75). Customers taking service under Rate HEP will be able to look up their power prices each day for the following day. While this variable pricing structure may prove beneficial to certain customers who have the ability to mitigate variable price risk by shifting load to lower cost periods, other customers that do not have this ability may be negatively impacted.

Q. Please explain how some customers may be negatively impacted by Rate HEP's variable energy pricing structure.

A. Many commercial customers operate their businesses during on peak periods, and do not have the luxury of simply shutting down during high cost periods or even

curtailing their load. Some large commercial buildings in downtown Chicago, for example, may not be able to operate or curtail electric load simply because they know electricity prices will be high the following day. These types of customers will have no way to mitigate a variable energy price risk if they are forced to take service under Rate HEP. Consequently, it will be extremely difficult for such customers to plan budgets when electricity costs may be unpredictable.

Q. Would it be possible for customers taking service under Rate HEP to mitigate their variable energy price risk through buying hedges from competitive suppliers?

A. In some cases this may be possible, although customers that will have this option will likely leave Rate HEP to take competitive service. Most customers that will probably take service under Rate HEP, however, will be those that were forced off competitive supply in the first place. In such cases retail electric suppliers may avoid further dealings with these customers and may be unwilling to sell them hedges to mitigate the risks associated with the variable energy prices of Rate HEP.

IV
EXAMPLES OF DEFAULT RATES
IN OTHER JURISDICTIONS

Q. Where can the Commission look to for guidance in its assessment of default rate structures?

A. The Commission can look to other jurisdictions outside of Illinois where default rates have been introduced. Assessing default rate structures currently being used in other competitive markets may provide some insight as to how default rates can be structured for the Illinois electricity market.

Q. Are you familiar with any default rate structures associated with other competitive markets?

A. Yes. I am generally familiar with default rates in the regions that appear in the Retail Power Index ("RPI"). The regions included in the RPI are represented by ten major cities including Boston, Chicago, Cincinnati, Dallas, Detroit, Houston, New York, Philadelphia, Pittsburgh, and Washington D.C.

Q. What is the Retail Power Index?

A. The RPI reports regional regulated and competitive electric price offerings for a "typical" small business customer entering into a one-year fixed-price retail contract. The RPI also provides a comparison of these retail price offerings to wholesale market prices to further gauge the vitality of retail competition. In essence, the RPI provides an independent monthly snapshot of how retail competitive markets are performing by comparing wholesale and retail market prices in a given region, as well as tracking changes in retail prices over time. Platts currently publishes the RPI in both *Megawatt Daily* and *Power Markets Week* on a monthly basis. The RPI reports four different statistics on each city including the regulated retail generation price, the competitive retail generation price, the percent monthly change in retail generation price, and the retail power spread.

Q. How are default rates generally determined in the other nine cities that comprise the RPI?

A. Most of the utilities that serve the cities that comprise the RPI simply put the customer back on their original bundled rate. This is precisely what ComEd will do for customers whose customer classes have not yet been declared competitive. In Cincinnati, for example, a customer who has been dropped by a competitive supplier will simply revert back to taking service under the applicable bundled rate service from Cincinnati Gas and Electric. There are, however, several

exceptions to this rule, most notably in Dallas, Houston, and Boston. Out of these three regions, the Boston electricity default service structure most closely resembles that of Illinois. Boston Edison/NSTAR ("BECo") bars customers taking competitive service that either leave or are dropped from their competitive service provider to return to their original bundled rate. Instead BECo places them on a specified default service rate. This arrangement is similar to the way Rate HEP is envisioned to work for ComEd customers whose customer classes have been designated to be competitive by the Commission.

Q. Please explain how the BECo default rate is structured.

A. There are two options for default service that customers on this rate can choose: A Fixed Rate Pricing Option, and a Monthly Variable Rate Pricing Option. Each of these rate options is divided into three main customer categories, Residential, Small Commercial/Industrial Customers and Lighting, and Larger Commercial/ Industrial Customers. The Variable Rate Pricing Option provides energy prices that vary from month to month. The Fixed Rate Pricing Option provides a fixed rate comprised of the weighted average of the filed Monthly Variable Rates. Both The Fixed Rate and the Variable Rate portions of the bill are based on the winning bid(s) accepted by BECo from alternative suppliers.

In addition to the supply service rates, there is a Delivery Charge also levied to customers. This charge contains five separate components: The Transmission Charge, which recovers the costs of transmission and ancillary services; the Distribution Charge, which recovers the costs associated with distribution; the Renewable Energy Charge, which funds the Massachusetts Renewable Energy Trust Fund to increase the availability of renewable energy; the Energy Conservation Charge, which covers the cost of energy efficiency programs, and; the Transition Charge, which recovers the costs of past investments in generating plants and power contracts. In addition to these components, a customer is also

assessed a Customer Charge that recovers administrative type costs, such as billing.

Q. Do believe that the BECo rates provide examples of proper default rates?

A. Yes. The BECo default rates are transparent, adequately recover the costs associated with default service, and provide an instrument for customers to mitigate the risks associated with fluctuating energy prices.

Q. Please explain how the BECo default service rates are transparent, adequately recover costs, and provide risk mitigation instruments to customers.

A. The BECo default service rates are transparent because each rate component is clearly earmarked for a certain purpose and individually recovered. A default customer taking service on these rates receives a bill reflecting the unbundled charges for each component of electric service.

As well as being transparent, the BECo default service rates also adequately recover the costs associated with default service. The retail supply cost component is determined through a bid process, maximizing the probability that the most efficient supplier will provide this service at the most efficient price. Conversely, the charges associated with other cost components, such as delivery services (distribution and transmission and ancillary services) and other costs, have already been determined to be fair and equitable in a regulatory review process.

Finally, the BECo default rates also provide a mechanism for retail customers to mitigate the risk associated with variable supply prices through being able to choose a fixed price supply option.

Q. How are the BECo default rates relevant in this proceeding?

A. BECo provides the Commission with an example of how to properly construct a default rate that meets the goals of transparency and cost-recovery. The next section of my testimony discusses how similar mechanics can be implemented in the present case of determining a default rate for customers whose services have been declared competitive.

V.
IMPROVEMENTS TO
THE CURRENT RATE HEP DESIGN

Q. Given the problems you discussed with ComEd's proposed Rate HEP, what do you propose the Commission should do?

A. There are two steps that I recommend should be taken to alleviate the problems associated with ComEd's proposed Rate HEP. First, Rate HEP should be redesigned to be transparent as well as ensure that the rate does not over or under recover costs for ComEd. Second, as is the case with BECo's default service rate options, there should be two default rate options available to customers whose service has been declared competitive: a variable energy price default rate option, and a fixed energy price default rate option. The variable option should be a modified Rate HEP ("Rate HEP_N") with its current day-ahead variable energy price option that will also consist of the changes to the Monthly Access Charge I propose below. The fixed rate option should be a default rate ("Rate HEP_F") that incorporates the changes to the Monthly Access Charge I propose below as well as replace the day-ahead variable energy price with a fixed annual energy price.

Q. How should Rate HEP be redesigned so that it is transparent and does not over or under recover costs for ComEd?

Rate HEP should be redesigned so that each major cost component is calculated individually. In ComEd's service territory, costs associated with default service should include distribution, transmission and ancillary services, retail supply, and administrative costs. The current Rate HEP already includes the Customer Charge and $Price_{Hr.}$ components, which recover administrative and retail supply costs respectively. Thus, to adequately redesign Rate HEP, the Monthly Access Charge should simply be replaced with individual components that recover distribution and transmission and ancillary services costs. Since ComEd already has a rate on its books that individually recovers distribution costs (Rate RCDS), as well as a rider that recovers transmission and ancillary service costs (Rider TS), the Monthly Access Charge should be replaced with these tariffs (or the cost components from those tariffs) in the Rate HEP equation. Thus, a newly redesigned Rate HEP ("Rate HEP_N") would be calculated in the following manner:

$$\textbf{Rate } HEP_N = \textbf{Customer Charge} + (Price_{Hr} * \textbf{kWh}) + \textbf{Rate RCDS} + \textbf{Rider TS}$$

A default rate calculated in this manner will be transparent as well as adequately recover the costs associated with providing the rate.

Q. Should the redesigned Rate HEP_N include a Customer Transition Charge ("CTC")?

A. No. A CTC is not necessary to recover any costs associated with a real time pricing rate. Indeed, ComEd has not claimed that CTCs should be charged to Rate HEP customers. Including a CTC, either explicitly or implicitly within ComEd's Rate HEP would not be appropriate.

Q. If the Commission were to determine that a CTC should be included as a component of Rate HEP, how should the CTC be determined?

A. If CTCs were included in a real time pricing rate, the CTCs should be calculated according to ComEd's Rate CTC, which calculates charges on a per kWh basis, based upon the customer's historic rate and usage. Under no circumstances should a customer pay a higher CTC under Rate HEP than that customer would pay if it were to take service from a retail electric supplier or from ComEd under its Rider PPO.

Q. Please explain why ComEd should offer a fixed annual energy price option for Rate HEP.

A. As discussed in Section 3 above, some retail customers that may take default service under Rate HEP may have difficulty mitigating the risks associated with day ahead pricing. Thus, for those customers, ComEd should offer a fixed annual energy price option for Rate HEP ("Rate HEP_F").

Q. Please explain how Rate HEP_F should be structured.

A. The energy prices calculated for the Rate HEP_F option can be based on a snapshot of on and off peak forward prices for the next twelve months, much like the current Market Value Energy Charge calculations for the ComEd PPO. The calculations of these prices can also incorporate PJM price shapes as well as the contribution to fixed cost adder of 10% of costs. Much like the variable energy price Rate HEP_N proposed above, Rate HEP_F would be calculated in the following manner:

$$\textbf{Rate } HEP_F = \textbf{Customer Charge} + (Price_F * \textbf{kWh}) + \textbf{Rate RCDS} + \textbf{Rider TS}$$

The Rate HEP_F option should be offered several times per year so that customers that may be forced on to default service during the year will have adequate opportunity to choose the Rate HEP_F alternative.

Q. If a default customer chose the Rate HEP_F option you are proposing would there be a minimum time period that the customer would have to remain on the rate?

A. Yes. Since the fixed energy price that would be calculated for the Rate HEP_F option would be based on a twelve-month snapshot of forward prices, the customer should have to remain on the rate for at least twelve months. In this manner ComEd can minimize the risks associated with providing this option since they will be able to procure power for the twelve month period knowing that the customer will remain on the rate for at least that long. Conversely, the fixed energy price for Rate HEP_F will be recalculated at the end of the annual period.

Q. Does this conclude your testimony?

A. Yes.